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TAGS: ECON EFIN EINV PGOV DR
SUBJECT: U.S.-OWNED ELECTRICITY GENERATOR CAUTIOUSLY
OPTIMISTIC FOR THE FUTURE

REF: SANTO DOMINGO 892

Classified By: Political-Economic Counselor Alexander H. Margulies for
Reasons 1.4 (b/d)

SUMMARY

¶1. (C) Charge and Emboffs,on 10/19, visited the AES Andres power plant, the largest American investment and the only liquefied natural gas (LNG) terminal in the Dominican Republic. AES officials lamented the state of the electricity sector in the country, noting that most of the sector's problems could be resolved by government action on paying off its debt to generators and by better targeting of its subsidies. They expressed optimism that the change in leadership at the Dominican Corporation of State-Owned Electricity Enterprises (CDEEE) and the attention the sector was being paid by the international financial institutions (IFIs) would result in important and much needed reforms.
END SUMMARY

¶2. (U) AES is an Arlington, Virginia-based company that specializes in the generation and distribution of electricity in 29 countries. AES Dominicana is one of the largest private sector investors in the country; it estimates total investments exceed USD 800 million. It has three operations in the country: AES Andres, a 300 MW terminal and combined-cycle plant that regasifies LNG imported from Trinidad and Tobago under a contract with British Petroleum; AES Los Minas, a 236 MW plant that uses the gas from AES Andres (via a pipelines AES constructed in 2004) to produce energy via turbines; and Itabo, a 260 MW coal-generated plant co-owned with the Government of the Dominican Republic (GoDR). AES' assets comprise 28 percent of the electricity generation capacity in the Dominican Republic (DR) but, given the lack of efficiency by other generators, currently supplies 36 percent of electricity actually generated.

GENERATION AND DISTRIBUTION: LOSSES AND SUBSIDIES

¶3. (C) AES officials walked Emboffs through the problems they face operating in the DR, focusing on inadequate government planning and poorly targeted subsidies. First, they showed a graph detailing that available capacity will no longer meet

actual demand at some point in 2012. AES officials stressed that planning to improve capacity by 2012 needs to be happening now, but the GoDR has yet to engage seriously on the issue. AES painted the GoDR's attempts at managing the sector over the years as inept. The government successfully privatized the sector in 2000, when losses (mostly through non-payment for services) represented 43 percent of production. The private sector managed to slash this figure to 27 percent by 2002 and steadily increased capacity, which reached a peak of 3000 MW in 2003. However, the banking crisis that year resulted in renewed government intervention in the electric sector. By 2008, all distribution was in government hands, losses again topped 40 percent, and capacity began a steady decline. AES officials highlighted that technical losses, such as line problems, usually result in losses of eight to ten percent. By way of comparison, in El Salvador, where AES is heavily invested, the sector has losses of ten to 11 percent; only one to two percent of those losses are non-technical. In 2008, losses in the DR stood at a whopping 39 percent of all electricity generated.

¶4. (C) AES portrayed the collection issue as a combination of poorly designed subsidies and a common public perception that electricity is a public good that should be more or less free. One AES official commented that Radhames Segura, the former head of the CDEEE until this past August, also held this view. Regarding the subsidies, the GoDR implements a geographic subsidy, the Programa de Reduccion de Apogonas, or Blackout Reduction Program. The subsidy provides free electricity to a specific zone, identified by the GoDR as an area with a high population of people meriting such a subsidy. AES decried the complete lack of metering in the

area and passed along anecdotal evidence that businesses had begun moving to the subsidized zones to avail themselves of the free electricity (Only an estimated one million meters exist in a country of 2.3 million energy users - see Reftel). They cited this lack of targeting of subsidies as one of the primary causes of the USD 500 million debt the GoDR owes to generators. (AES estimates it alone is owed over USD 300 million.) According to AES, the GoDR budgeted for 1.1 percent of GDP -- or, roughly USD 540 million -- to be spent on electricity subsidies in 2009; however, current predictions envision the bill exceeding USD 700 million.

¶5. (C) The inefficiencies stemming from the losses and subsidies amount to a much higher price per kilowatt hour (KWH) than the DR would otherwise pay. AES broke down the current average price of 19.8 U.S. cents (USC) per KWH as USC 12.98 in generation (one of the lowest in the region) and USC 6.82 in distribution (one of the highest in the region. (NOTE: All three AES generators produce electricity for much less than the average price: Andres at USC 6.72 per KWH, Los Minas at USC 8.13, and Itabo at USC 10.78. END NOTE.) After oil prices fell in 2009, the inefficiencies in distribution meant that the government was unable to pass on the savings to consumers: customers were paying the USC 19.8 price, but the government was purchasing at only around USC 10 per KWH.

THE FUTURE: INVESTMENT IS NEEDED

¶6. (C) AES highlighted the role it plays in promoting diversification of the sources of energy used in the DR. In 1999, two years after AES entered the Dominican market, 90 percent of electricity in the DR was produced by oil; now, 47 percent comes from oil, 21 percent from LNG, 17 percent from coal, and 15 percent from hydropower. It estimates the sector needs USD 3.4 billion in investments over the next five years, particularly given the predicted failure of available capacity to meet actual demand somewhere in 2012.

¶7. (C) AES officials stressed the importance of the GoDR getting its house in order. As a result of both the debt owed it by the government and its failure to predict what payments it will receive from the government, AES took a smaller delivery of LNG from British Petroleum in its October

2008 contract and scaled back production at its Los Minas plant to only peak hours. If the government could begin paying its bills in a reliable fashion, AES would be willing and able to convert its Los Minas plant from single- to combined-cycle and run it at full capacity, resulting in 100 MW of additional generation.

¶8. (C) Moreover, AES officials estimated that USD 600 million was needed to implement a program to meter the country and expressed optimism that the World Bank and Inter-American Development Bank (IDB) would help fund this program. AES officials remarked that President Fernandez need only look at building on existing infrastructure at home rather than seeking new investments from abroad to solve the DR's electricity shortages. (NOTE: President Fernandez has recently engaged in a series of trips overseas to drum up foreign direct investment, including a trip to Libya to discuss the possibility of a Libyan investment in a LNG terminal on the north shore. The CDEEE also recently announced plans to construct within three years a 600 MW facility by German company Man-Ferrostaal and an 800 MW plant by Canadian company SNC-Lavalin. END NOTE.)

¶7. (SBU) AES officials were optimistic that businessman Celso Marranzini, the new head of the CDEEE, would be successful in his attempts to turn around the sector. (Econoffs will attend a speech at the Amcham by Marranzini next week and report SEPTEL.) In September, the government paid 80 percent of its bill, an improvement from the 20 percent AES collected in March. AES officials also felt that the attention being paid the sector by the IMF, World Bank, and the IDB would be helpful and that, for the first time in ten years, all the major players were looking in the same direction.

COMMENT

¶8. (C) The AES Andres complex is an impressive a combined cycle plant. It also has the ability to operate with diesel number two fuel, though it has never done so. AES management is clearly frustrated that the inefficiencies endemic in the Dominican electricity sector have limited its ability to realize the full value of its investment and is anxiously awaiting signs of change before expanding its operations. The officials held out the possibility that the payment of some of the debt owed it and a more complete series of payments on a reliable basis could be enough to induce it to invest further. If Celso Marranzini continues to make 80 percent payments every month and if the IFIs help the GoDR pay off its debt, it seems possible that AES could see what it needs in the next few months. However, experience implies that it should wait to have the checks in hand first. END COMMENT.
LAMBERT